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ent that a large class of peasant farmers are too poor to invest \$25 in a team of two hacks, which are absolutely indispensable on a peasant farm. Yet the average peasant family is taxed directly and indirectly about \$35 per year. It must be remembered that the privileged classes are exempt from direct taxation, and that peasant lands are assessed at a much higher rate than those owned by the nobility or their successors of the capitalist class; it need hardly be said that the taxes on consumption are borne by the majority of the population.

The Russian government has undertaken to furnish cheap credit to the farming classes, in order to improve the state of Russian agriculture. The workings of the plan and its effects are thus summed up in the report:

The Nobles' Bank provides noblemen with mortgage loans at reduced rates of interest, which are from $1\frac{1}{2}$ to 2 per cent. less than those paid by common citizens. The Peasants' Bank is of no consequence to the masses. It aids a small number of peasants with cheap money loans for buying land; it is powerless, however, to influence the general rate of interest. . . . The mutual loan associations and village banks are so few, and their means are so limited, as to be of no effect upon general conditions. . . . The lack of credit renders the peasant farmer still more unprogressive than he is made by inborn dulness and lack of education. (P. 22.)

This review may properly be closed with a parallel between Russian and American agriculture. There is a widespread belief, says the author, that the American farmer produces under more favorable conditions than the Russian peasant. In reality, the fertility of the Russian black-soil region is by no means inferior to that of the northwestern states, which it much resembles as regards climate, soil, and distance from the market, whereas the cheapness of Russian labor reduces the cost of production by from 30 to 50 per cent. as compared with the average for those states. He is of the opinion that with the natural advantages of the wheat-producing region wheat-growing could be made highly profitable in southern Russia.

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SOME FEATURES OF THE RUSSIAN ECONOMIC SITUATION.

BEFORE entering upon a discussion of the present economic conditions and the industrial outlook in Russia, a historical review of

Russian industrial development during the last forty years would seem to be in place.

Russia's manufacturing industries until 1860 were insignificant for the chief employment of her people was agricultural in character and grain and other raw materials, such as leather, timber, and wool, were the chief articles of Russian trade with foreign countries, in exchange for which Russia received machinery and all other manufactured products, for the most part from Germany, England, and France.

Prior to the great reform of 1861, the abolition of serfdom, Russia had no systematic economic policy, and therefore it is hardly worth while dwelling upon this period. But since 1861 the development of our industrial resources assumes a more definite course. The Crimean war showed the Russian government that Russia was too far behind western Europe, and that it was impossible to fight European nations with inferior weapons supplied by our enemies. Even our brave soldiers, who could march twenty-four hours without rest and live on hard-tack, could not with their bullets "made of clay" withstand the better guns and cannon of the English and French armies.

The emperor, Alexander II., and his progressive statesmen, understood perfectly well that the Russian nobility and its serfs were no match for the "free and civilized" nations of Europe. They understood the necessity of having their own factories for the construction of guns, in order that they might not have to depend upon their enemies for arms. At that time there were in Russia practically no railroads, and it was impossible in case of war to move our armies quickly to the desired points. It was clear then that Russia needed factories of her own to supply her people with the necessities indispensable in every civilized country. But how could industries be developed without free labor? How could free labor be secured when all the serfs of the Russian nobility were employed? Thus the logic of the economic conditions of that time required free labor, and, in fact, this was the first and most important reason for the abolition of serfdom. The Czar and the idealistically disposed statesmen of the sixties of the last century thought that by its abolition they would create an opportunity for free labor.

This historical moment was the beginning of Russian industrial development. The protective tariffs were the logical consequence of our determination to develop our own industries, and, in fact, the decade between 1861 and 1872 was a period of heavy protective

tariffs. But we soon learned that it was impossible with our illiterate people just emerged from serfdom to establish factories on the European model, and to construct the necessary machinery. While European industries had been developing for a long period, we wanted to have ours full-grown at a moment's notice—a thing that was not possible without the aid of one of the kind fairies that exist only in stories for children.

When the Russian landlords had spent the money received by them from the government in exchange for the lands they had been forced to give to the emancipated peasants, they began to think how they might improve their empty pocketbooks. The Russian landlords owned more than half of all the agricultural lands, but they now had no serf labor to enable them to compete with the technically more developed European agriculture. Having lost gratuitous labor with the abolition of serfdom, they needed agricultural machinery to be able to compete with foreign nations on the European market; and this was the reason why they began to agitate for liberal tariffs. Since no good results from the protective tariff were apparent, attacks by the agrarian class were successful, and the government finally decided to return to a liberal tariff policy.

The Russian free-traders, who were, and now are, almost exclusively landlords, asserted quite justly that farmers, and especially peasants, needed cheap agricultural machinery, which the home factories could not supply, and that consequently the government must grant liberal tariffs. As a result, we had for more than ten years something like free trade, until our glorious, but rather expensive, war with Turkey in 1878. Then, not at once, but gradually, we changed our liberal tariff for a protective system, and since 1882 Russia has been a protectionist country, and it will probably remain so for a long time to come.

I have given this brief outline of Russian economic evolution for twenty years after the abolition of serfdom in order to show what the condition of the majority of the Russian people was. While the industrial classes and landlords argued with each other about the tariffs, the Russian peasants were becoming poorer and poorer. Why? Because protective tariffs mean skinning the landlords for the benefit of the manufacturers—forcing them to buy expensive Russian machinery. But this skinning was done at the expense of the peasants, whose labor the landlords used. At the same time, liberal tariffs are of no benefit to the peasants who are unable to buy

modern machinery, Further on I will support this statement with statistical figures, but now I want to characterize the economic policy of the last ten years while it was under the direction of Mr. S. J. Witte, the last minister of finance.

Beginning with 1880, the course of Russian economic policy has been one of continuous protection. But the predecessors of Mr. Witte, Ministers Wishnegradsky and Bunge, were unable to devise proper ways and means for developing our manufacturing industries. When Mr. Witte began his career as minister of finance, he clearly understood what kind of a policy Russia needed to develop her industries. As a business man (he had been for some years the general manager of the great Southwestern Railroad Company—the largest railway system of the country), Mr. Witte knew that railroads are the greatest consumers of iron and coal, and his first step was to place a very high protective, or rather prohibitive, duty on both of these commodities. His next step was to build government railroads in order to give the steel and iron factories government orders, and following this to increase the duties on all sorts of machinery almost to the prohibitive point, and to prohibit entirely the placing of orders abroad for rails, locomotives, and all necessary railroad supplies.

In 1895, when helping to organize the sugar trust, he forced the sugar manufacturers to buy the necessary machines from the Russian factories. At the same time he organized the government monopoly of alcohol, and this required a good deal of machinery. Understanding perfectly well that the Russian manufacturers needed capital, he caused the Imperial State Bank to give them a large amount of credit, and he even paid in advance for all government orders. The assistance rendered by the state proved, however, insufficient to develop all the manufacturing industries thought necessary for Russia, and Mr. Witte, having increased the tariff on foreign articles, made great efforts to invite foreign capital, and not without success. In fact, in south Russia more than 80 per cent. of the capital invested in different industries is of foreign origin. That this is a rich section is shown by the fact that the region known as the Donetz Basin in the southeast produces more than half of all the iron and 90 per cent. of the entire output of coal. The largest factories in southern Russia are owned by foreigners, and so far their business has been flourishing.

As to the results of this policy, it may be stated that when Mr.

Witte assumed the duties of minister of finance the government budget was only \$500,000,000, and after ten years of his administration it doubled. A single illustration will make this clear. The measure of progress of any country is the quantity of iron which it uses. Until 1892 Russia literally suffered from an iron famine, but in that year a total of three million tons of domestic iron was used for all purposes, including agriculture. This must be regarded as remarkable progress in that time, considering the poverty of the Russian people and that to them iron had been almost as inaccessible as gold. It should be said, though, that half of the iron used was for government orders, filled at higher prices than would have been paid if it had been imported from Germany, England, or America.

The further question then naturally presents itself as to which social classes ultimately contributed the funds by which Russia accomplished her remarkable industrial progress. The necessity of paying the highest prices increased the indirect taxes on every article used as a necessity by the great majority of the population.

In order to answer this question I will give you the statistics of Russian consumption of the staple products compared with that of the United States, taking my figures from our official publications, and from the census reports of the United States.

The quantity of iron produced by Russia and the United States in 1900 was as follows: Russia, 3 million tons; the United States, 17.5 million tons. The per capita consumption in Russia is 35 pounds; in the United States, 550 pounds. Thus the United States uses per capita about sixteen times as much as Russia. The cause of this difference is perfectly clear. While in Russia, including Finland, there are only 45,000 miles of railroad, in the United States there are over 200,000 miles. The means of communication in a country are like the nerves and veins of a living organism. They should be nerves and veins of the country. But we were forced to build many miles of railroads merely to be able to move the army to any desired point in case of war. Certainly, as Mr. Witte said, 1,500,000 soldiers and a great many railroads, serving the administrative needs, give the Russian people the very desirable assurance—very desirable indeed—that they can toil peacefully and increase their wealth without fearing neighboring enemies.

But let us see how rich our people have grown. As I said before, our industries were not based on the needs of the great majority of our people. During the four years from 1893 to 1896

the officially recorded production of wheat averaged 425 million bushels per annum and the exports 120 million bushels. For the four years from 1898 to 1901 the average production was 440 million bushels, but the average yearly exports during this period were only 72 million bushels. In 1894 we exported 426 million bushels of wheat, rye, and other grain, and in 1900 the exports were only 230 million.

The most remarkable figures are given for the exports of wheat to England, which is the best market for our wheat.

PERCENTAGE OF ALL WHEAT IMPORTS INTO ENGLAND.

	From the United States	From Russia
1866-70	31.5	25.2
1871-75	39.8	23.5
1875-80	53.4	12.6
1881-85	53.5	11.6
1886-90	48.2	18.6
1891-95	52.5	14.3
1896-1900	59.8	9.6

Thus the imports from Russia decreased two and a half times while those from the United States doubled. This decline of Russian imports is wholly due to the prohibitive tariff on coal imported into Russia through the Black Sea. Mr. Witte's policy is responsible for the falling off of British shipping on the Black Sea to well-nigh one-half of its former volume, which has resulted in doubling the freight rates on wheat from Odessa and other southern seaports to London, and in depressing the price of wheat to the point of ruin. Moreover, in order to promote the use of Donetz coal on the Black Sea coast, Mr. Witte reduced the railway freight on coal below the actual cost of carrying it to tidewater; to indemnify the railroads for the loss, he raised the freight on grain shipped to ports on the Black Sea. Although the average Russian crop of grain increased and the exports decreased, it would be a mistake to think that the Russian people now eat more bread than before. The fact is the crop per acre decreased, and it is now not over ten to twelve bushels per acre less than in Germany or France. The following figures will show how the Russian people feed themselves. The annual consumption of corn and wheat meal in the United States is 16 bushels per capita, as against 4.6 in Russia. The consumption per capita of grain in the United States is 16 bushels and in Russia only 4.6

bushels. The consumption of sugar in the United States is 72.8 pounds per capita, while in Russia it is only 10 pounds. As to the consumption of meat in Russia, I should say that the majority of our population — about 90 million people — eat it two or three times a year.

There are now in Russia 826 iron mills, including in this number the factories of agricultural machinery, nail factories, engine, boiler, locomotive, and car factories. This number falls altogether below the number of factories in the United States; in fact, there is no room for comparison between the two countries, for there are more iron factories in the single state of Illinois or New York than in all of Russia. Two hundred and seven factories of the 826 are constructing agricultural machinery, and they produce yearly seven million dollars' worth of machines; in other words, only about half of the annual product of the McCormick Harvester Factory in Chicago.

Furthermore, is it not strange that an agricultural country like Russia has no factory of flour-mill machinery? At present we get roller-mill and other complicated flour-mill machinery for the most part from Switzerland and Germany, though producing 440 million bushels of wheat and 360 million bushels of other grain, such as rye, oats, and barley. Our 490 engine and machine factories produce only 61 million dollars' worth of product. Needless to say we are forced to buy foreign machinery, and we do it, importing annually 12 million dollars' worth of agricultural machines and 34 million dollars' worth of other machinery, or 65 per cent. of all that we use, although the tariff rates are so high that the prices of some of these machines are doubled.

These figures would seem to speak against my earlier assertion that the tariff was made in order to prohibit the buying of foreign machinery. To be sure, the majority of the Russian people, the peasantry, are unable to use foreign machinery because of its high prices, but the landlords continue to do so. Not only owners of large estates containing thousands of acres, but even tenants holding estates of from 500 to 1,000 acres use chiefly foreign machinery.

Russian liberal newspapers are incorrect when they say that the policy of the ministry of finance is not favorable to our agricultural class as a whole. As a matter of fact, there is in Russia a special bank for the nobility, which assists them with practically unlimited credit for the purpose of improving Russian agriculture.

Thus our ministry of finance has acted in favor of manufacturers and landlords, but has not cared about the small peasant farmers, who are the chief producers of grain, and who do not on the average cultivate more than from three to five acres. This policy produces a country proletariat—or, in other words, cheap agricultural labor for the landlords, and cheaper factory labor than can be had in any other country.

While in the United States the minimum income from a farm is not less than \$500 a year, in Russia \$150 is the maximum, and on an average incomes are lower than \$80. Certainly the majority of our farmers are in a chronic state of suffering, being compelled to sell the crop which they need for themselves to pay taxes in the fall when prices of products are cheapest. The result is that the peasants are unable to pay their taxes in full, and, in fact, since 1896, when they owed the government 4.2 million dollars of taxes, this outstanding debt has increased to 18.3 million dollars, being 4.5 times as high as it was five years before. And in 1902 the minister of finance, Mr. Witte, wrote that Russia had lost one billion dollars on account of the decrease in the wheat, rye, and other grain crops.

Twenty years ago there was established a so-called peasant bank, and for these twenty years it has given exclusively to the peasants about 100 million dollars' worth of credit. But what does this poor mite amount to in comparison with the enormous sums expended by the government for the support of manufacturing industries, for example the expenditure, estimated at one billion dollars for the last ten years only, for building government railroads? Each dollar spent for the benefit of the peasantry during the last twenty years means five cents per capita annually.

Of course, it is impossible to improve everything at once in a country where there is so much to be done, and I am not a pessimist as to the economic future of the Russian people. As to this future, I should perhaps say at once that I am not a free-trader. In my opinion, free-traders are the great utopians of this era of capitalistic production. The history of the evolution of this system of production teaches us that capitalists struggle fiercely for the acquisition of markets in which to dispose of their products. To fight against protection is to fight against modern methods of production, and present methods of fighting for free trade are like Don Quixote's battle with the windmills.

But let us see what can be done for the improvement of the

present economic condition of Russia with regard to the capitalistic system of production. The question is whether the majority of the Russian people in their present condition can support capitalistic industry or not. I should say, Yes. Russia with her population of 130 millions can use yearly for her agricultural needs alone, two million tons of iron, counting the domestic demand for ironware and for the simplest agricultural machines, such as plows and harrows. No doubt, in the near future Russia will export, not only grain as she does now, but also flour. Furthermore, the biggest area of forests in the world is in Russia, and yet the lumber industry in Russia is now as poor as it was in America eighty years ago. This alone opens a great field for the manufacturing of machinery for flour mills and for the lumber industry.

Some people might think that the Russian peasantry is so ignorant and conservative that it will not change its primitive methods of agriculture. This opinion is held, not only by foreigners, but by some Russians too. With this we do not agree, because for the last twenty years our peasantry, having worked for landlords, has learned the advantages of modern machinery, as compared with its mediæval plows and harrows. With the aid of the *Zemstvos* which appropriate for that purpose increasing amounts out of their annual budget of 60 million rubles, they are becoming an important factor in the market for agricultural machinery. Let our peasants have good machinery, and they will do the rest with their physical vigor and the love for hard labor that is peculiar to the Russian people.

Our only need is capital. Personally, I should prefer American capital, which is the most adaptable in the world. American capital brings with it the strongest business spirit; its power of developing any market is wonderful indeed, and so far as it is in my power, I would most cordially invite American capitalists to come to Russia. Such invitation would seem unnecessary if we accept as true certain tendencies outlined by the president of the American Bankers' Association. At the annual meeting in 1898, in December, he said: "We hold now three winning cards in the game for commercial greatness, to wit: iron, steel, and coal. We have long been the granary of the world; we now aspire to be its workshop; then we want to be its clearing-house." Now, to become the "clearing-house" for Russia, American capital must necessarily seek industrial investment there, because the direct importation of the "winning cards" into Russia is impossible, at least under the present fiscal

régime. And the American capitalists need not doubt that they would find some "winning cards" in Russia, which is as rich in natural resources as the United States.

Some of them already know the way to Russia, although they prefer to cut a piece of the government pie. There are now in our country two big American factories which have secured a great many of the government orders. One of them is a locomotive factory at Sormovo Nijni Novgorod; the other one, an air-brake factory of the well-known Chicago manufacturer, Mr. Crane. But the government cannot now place as many orders as it did during the administration of Mr. Witte. He made great efforts to build up the Russian iron industry and finally stopped, because the funds available for that purpose had given out. But Russia offers a splendid field for private enterprise in railroad building. With its 45,000 miles of railroads, as compared with the 200,000 of the United States, there is room for many more important lines. Private enterprise in that field is now much favored by the growing inclination on the part of the Russian government to grant concessions, and the building of private roads is now on the increase again. Among the new private roads are the Kiev-Kovel and Kiev-Poltava; in 1902 there were built 1,200 versts of private roads.

The next step of the government, if it understands the necessity of raising the purchasing power of the mass of the people, if industry is to prosper, will be to favor the introduction of capital which brings with it power to organize production for agricultural needs. And if the American capitalists know that outside of the government orders a considerable market can be developed, no doubt they will be willing to make these investments, which will certainly pay.

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AN EARLY EXPERIMENT IN TRUSTS.

ACCORDING to Much,¹ following in the main the views of Penka, Wilser, De LaPouge, Sophus Müller, Andreas Hansen, and other spokesmen of the later theories touching Aryan origins, the area of characterization of the West-European culture, as well as of that dolicho-blond racial stock that bears this culture, is the region bordering on the North Sea and the Baltic, and its center of diffusion is to be sought on the southern shores of the Baltic. This region is in

¹ MATTHAEUS MUCH, *Die Heimat der Indogermanen*.